



16.

CITY OF CAMBRIDGE • EXECUTIVE DEPARTMENT

Robert W. Healy, City Manager

Richard C. Rossi, Deputy City Manager

March 18, 2013

To the Honorable, the City Council:

RECOMMENDATIONS

That the City Council approve the following block rates for water consumption and sewer use for the period beginning April 1, 2013 and ending March 31, 2014. The City administration and City Council continue to recognize that it is important to mitigate the effects of water and sewer increases both for FY14 and future fiscal years as much as possible. Therefore, I am submitting a recommendation that calls for a 0% increase in the water rate and a 4.2% increase in the sewer rate, resulting in a 2.9% increase in the combined rate. This is the third consecutive year that the City has been able to produce a 0% increase in the water rate. The sewer rate also saw a 0% increase in FY12 and FY13.

Water consumption, along with the budget (including the Massachusetts Water Resources Authority (MWRA) assessment), are the major factors in determining the rate necessary to generate sufficient water and sewer revenues. The total FY14 Water Budget reflects a budget increase of 0.5% from the FY13 Budget and the total FY14 Sewer Budget reflects a 3.7% increase from FY13 Budget. The primary reason for the increase in the Water Budget is an increase in the salaries and wages account due to cost-of-living allowances and benefit increases which are partially offset by a decrease in the debt service account. The Sewer Budget shows small increases in the pay-as you-go capital budget, MWRA assessment, Debt Service account, and the Sewer component of the Public Works Budget.

Water and sewer charges are directly linked to water consumption, with sewer costs comprising approximately 70% of total water and sewer expenditures. When consumption declines, revenues are negatively impacted. In the current fiscal year, water is being consumed at a rate that is approximately 1% lower than the previous fiscal year. In FY12, water was consumed at a rate approximately 2% lower than FY11. Both FY11 and FY10 saw increases in the consumption rate of approximately 2% and 1% respectively. We anticipate level consumption in FY14.

In my recommendation to you last year, the projected FY14 rate increases for water, sewer and combined were 1.1%, 5.8%, and 4.4%, respectively, based on March 2012 consumption rates and projected budget. We have, however, been able to produce rates lower than estimates from last year due primarily to the MWRA assessment in the sewer budget. With respect to the water rate, the operating and capital budgets show a smaller increase than what was shown for FY14 in the March 2012 rate setting letter and the use of Fund Balance.

Overall, the City has been extremely successful over the past five years in producing reasonable water and sewer rate increases. The average annual increases for the FY09-13 period were as follows: Water, 1.3%; Sewer, 4.1%; and Combined, 3.2%, which include both the water and sewer rates showing 0% increases in FY12 and FY13.

FY14 estimated sewer revenues will cover the FY14 estimated Massachusetts Water Resources Authority (MWRA) assessment, which is scheduled to increase by \$340,759 from the original budget to

\$21,346,811 or 1.6%. The MWRA rate increase projected for the City is subject to change based on the MWRA budget which is adopted later in Spring 2013. These changes have typically been minor in past years.

In February 2013, the City issued \$21,405,000 in bonds to finance several sewer reconstruction projects throughout the City. The annual debt service costs attributable to these bonds are included in the sewer budget.

FY14 estimated water revenues will cover increases in costs related to cost-of-living-allowances and health benefits in the salaries and wages portion of the operating budget, offset by a decrease in debt service. The projected fund balance for FY13 is \$8,524,682 of which \$300,000 will be used in FY14 to support a 0% rate increase.

The chart below reflects the FY13 actual and FY14 proposed water and sewer rates.

	Annual Consumption*	FY13 Water Rate	FY14 Proposed Water Rate	FY13 Sewer Rate	FY14 Proposed Sewer Rate
Block 1	0 – 40 CcF	\$3.02	\$3.02	\$7.86	\$8.19
Block 2	41 – 400 CcF	\$3.24	\$3.24	\$8.32	\$8.67
Block 3	401 – 2,000 CcF	\$3.44	\$3.44	\$8.93	\$9.31
Block 4	2,001 – 10,000 CcF	\$3.65	\$3.65	\$9.62	\$10.02
Block 5	Over 10,000 CcF	\$3.96	\$3.96	\$10.23	\$10.66

*All rates are per CcF. CcF is an abbreviation of 100 cubic feet. One CcF is approximately 750 gallons.

BACKGROUND

In March of each year, the City Council establishes water and sewer rates, which determine water and sewer revenues for the next fiscal year. Because of the timing requirements, water and sewer rates are set prior to the adoption of both the Cambridge budget and MWRA budget; therefore, revenue needs are based upon estimated expenditures. Historically, water and sewer rates have been established so that revenues generated by them, when combined with other revenue sources, cover projected annual costs.

The projected FY14 rate increase of 0% for water is lower than the five year average of 1.3% while the FY14 rate increase for sewer is 4.2% which is slightly higher than the five year average of 4.1%; however, this increase is still considered moderate. It should be noted that the water rate increase of 0% in FY12, FY13, and FY14 and the 0% increase in the sewer rate in FY12 and FY13 is a rare occurrence and demonstrates our commitment to keeping rates low by controlling expenditures, while investing in our infrastructure.

WATER

Beginning 14 fiscal years ago (2000), a portion of the fund balance from the Water Fund has been used to offset increases in the operation of the Water Department. In FY14, the fund balance support will be \$300,000, which is \$50,000 more than the amount used in the FY13 budget. However, due to budget savings and increased revenue, we will be able to absorb the difference without using the Fund Balance in FY13. By using \$300,000 from the fund balance in FY14, the City is able to achieve a 0% water rate

increase while providing a significant amount in capital funds for infrastructure improvements. It is expected that use of the fund balance will be eliminated in FY15, as the decreases in water debt service continue. As Table 3 on page 6 indicates, the total FY14 water operating and capital budget increased by 0.5% from \$18,249,655 in FY13 to \$18,344,275 in FY14. As noted above, the decrease in debt service has partially offset increases in the operating budget.

The planned capital allocation has remained level funded at \$3,400,000 in FY14 due to the Water Department using the pay-as-you-go capital plan based on current revenues instead of debt financing. Table 3 on page 6 indicates the details of Water Fund projected revenues and expenditures for the fiscal years 2013 to 2018. Table 6 on page 9 shows actual Water Fund balances for FY08-12 and the projected balance for FY13.

SEWER

The total FY14 sewer budget has increased from \$39,037,953 in FY13 to \$40,495,696 in FY14. The increase is due primarily to an increase in debt service of \$692,409, an increase in the MWRA assessment of \$340,759, the capital budget increase of \$250,000 and operating budget increases of \$174,575. The pay-as-you-go component provides sufficient funds to cover several sewer projects not large enough to require bond-financing.

It should be noted that the debt service on sewer bonds and the MWRA assessment account for 89.3% of the total sewer budget.

Unlike the water budget, sewer revenues are credited to the General Fund and not to a separate Proprietary Fund that can be drawn upon if the need arises.

CAPITAL PROJECTS

The sewer debt service increase is attributable to the debt service on the General Obligation Bonds issued in February 2013. The following sewer projects were included in the February 2013 bond issue: Agassiz; Cherry Street / S. Mass. Avenue; and Alewife Watershed projects. Since May 1998, the City Council has authorized \$332,828,675 for water and sewer capital projects in the Capital Budget process through FY13. This impressive investment in our water and sewer systems represents significant progress towards ensuring that Cambridge will continue to benefit throughout this century from a healthy and environmentally sound water and sewer system. In addition to the projects currently under way, the five-year capital plan (FY14-18) calls for an additional investment of approximately \$185,512,917 (primarily sewer, \$168,112,917) in the water and sewer systems.

Sewer improvements are projected to continue in the following areas: Cherry Street/South Massachusetts Avenue; Agassiz Neighborhood; Alewife Watershed; Cambridgeport; Harvard Square; and Western Avenue. The City carefully monitors the issuance of debt to fund authorized sewer projects and makes adjustments to ensure that debt service cost increases, which impact the sewer rate, are moderate.

Sewer bonds of \$2,200,000 have been allocated to address older pipe systems that are showing signs of age. The program will focus on areas where sewer separation and stormwater management projects are not scheduled.

The allotment of \$1,000,000 in sewer revenues to the capital fund will continue to finance the remedial reconstruction program and the development.

The allocation of \$3,400,000 for water capital will be used for energy reduction projects, improvements to the distribution and transmission system, equipment replacement, engineering and program development, and improvements to the watershed.

During the past decade, the State has made substantial contributions to the City's water and sewer capital improvement program through the State Revolving Loan Program. With most of the large water and sewer projects that were financed in part through loans from this program having been completed, state subsidies covered only \$123,471, or 0.7% of the total debt service of \$16,767,151 for all FY13 water and sewer projects. The City will continue to receive State subsidies on existing debt. The FY14-18 capital plan includes other projects that may be eligible for subsidized loans from the State. As in past years, it is not certain that these projects will receive state subsidies, the debt service on these projects has been calculated based on funding through General Obligation Bonds. In order to proceed with the projects while restricting the growth of the sewer rate, the revised plan for sewer projects has been extended, since the total debt service on the loans will be covered through the sewer service charge. If state subsidies become available to the City, they will be used to lower the sewer rate in future years. Table 4 on page 7 shows the detail of sewer-related expenditures for FY13-18.

Table 1 below summarizes the change in water and sewer metered revenue, while Table 2 presents the estimated average charge to residential water/sewer bills.

FY14 projected revenues are based on FY13 projected collections and reflect our practice of conservative revenue projections.

TABLE 1
Combined Water / Sewer Metered Revenue

	FY13 Projected	FY14 Budget	% Change
Water	\$17,300,000	\$17,294,275	0%
Sewer	\$38,200,000	\$39,822,225	4.2%
Combined Water / Sewer Revenue	\$55,500,000	\$57,116,500	2.9%

TABLE 2
Average Change to Combined Water and Sewer Residential Bills

Residential Type	FY13 Actual	FY14 Projected	Annual Variance	% Change
Single Family	\$764	\$786	\$22	2.9%
Two Family	\$1,011	\$1,040	\$29	2.9%
Three Family	\$1,528	\$1,572	\$44	2.9%

SENIOR DISCOUNT PROGRAM

There are currently 2,539 homeowners who qualify for the age 65+ water / sewer 15% discount (not to exceed \$90 annually), which is not tied to the homeowner's income.

There are also 116 elderly homeowners who qualify for an income-based discount of 30% (not to exceed \$180 annually). To qualify for the 30% discount, a homeowner must be 65 or older and must have been granted the Clause 41C elderly real estate exemption. For FY13, the income guidelines are as follows: single, income of \$24,063 with assets of \$48,125 or less; married, income of \$36,095 with assets of \$66,172 or less.

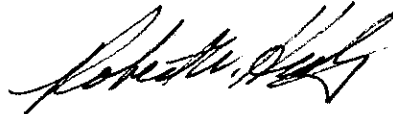
FUTURE OUTLOOK FOR RATES

Tables 3, 4, 5 and 6 contain five-year forecasts for water, sewer and combined revenue estimates as well as water fund balances for the past five years and the projected FY13 fund balance. As can be seen in Table 5, the annual combined water / sewer rate is projected to increase by an average of approximately 4.9% for FY14-18. The projected increase is the result of the City's infrastructure improvement program and increases in the MWRA assessment (based on estimates received from the MWRA) of between 0% - 7.5% in FY14 through FY18. If increases in the MWRA assessment are more moderate and subsidies for new State Revolving Fund loans are funded, the rate increases that are shown will be lowered. If consumption increases and therefore revenues increase, rate increases will be affected positively. Conversely, if consumption were to decrease, there will be a negative effect on water and sewer revenues.

Because of our planning process, which includes conservatively estimating our water and sewer revenues and controlling expenditure growth, including debt issuance, we have been able to recommend a 0% water rate increase and a 4.2% sewer increase which results in a combined rate increase of 2.9% while still investing in our utility infrastructure.

I believe we have structured our water and sewer program to produce reasonable rate increases in the future to meet the City administration and City Council goal to mitigate the effects of water and sewer increases on residents as much as possible, while investing in our infrastructure.

Very truly yours,



Robert W. Healy
City Manager

RWH/jf
Attachments

Table 3
Water Projections
FY13-18

Water Expenditures:	FY13 Budget / Recap	FY13 Projected	FY14 Budget	FY15 Projected	FY16 Projected	FY17 Projected	FY18 Projected
Operating	10,461,275	10,297,700	10,690,700	11,118,328	11,563,061	12,025,584	12,506,607
Existing Debt	3,682,805	3,682,805	3,548,000	3,112,305	2,866,505	2,745,505	2,624,505
Subtotal Operating Budget	14,144,080	13,980,505	14,238,700	14,230,633	14,429,566	14,771,089	15,131,112
Capital	3,400,000	3,400,000	3,400,000	3,500,000	3,500,000	3,500,000	3,500,000
Finance	225,000	225,000	225,000	225,000	225,000	225,000	225,000
Conservation	40,575	40,575	40,575	40,575	40,575	40,575	40,575
Public Works	400,000	400,000	400,000	400,000	400,000	400,000	400,000
Community Development	30,000	30,000	30,000	30,000	30,000	30,000	30,000
Animal Commission	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Total	18,249,655	18,086,080	18,344,275	18,436,208	18,635,141	18,976,664	19,336,687
Assumptions:							
1) Operating Budget for FY14 is based on City Manager's Submitted Budget and increases 4% for FY15-18.							
2) Capital as shown.							
3) All others remain constant from FY14-18							
Revenue / Change in Fund Balance							
Beginning Fund Balance	8,410,762	8,410,762	8,524,682	8,224,682	8,224,682	8,224,682	8,224,682
Meter Revenue	17,249,655	17,300,000	17,294,275	17,686,208	17,885,141	18,226,664	18,586,687
Miscellaneous Water Charges	750,000	900,000	750,000	750,000	750,000	750,000	750,000
From Fund Balance (Operating)	250,000	250,000	300,000	-	-	-	-
Total Revenue	18,249,655	18,450,000	18,344,275	18,436,208	18,635,141	18,976,664	19,336,687
Total Expenditures	18,249,655	18,086,080	18,344,275	18,436,208	18,635,141	18,976,664	19,336,687
From Fund Balance	250,000	250,000	300,000	-	-	-	-
Ending Fund Balance	8,160,762	8,524,682	8,224,682	8,224,682	8,224,682	8,224,682	8,224,682
Projected Rate Increase	N/A	N/A	0.0%	2.3%	1.1%	1.9%	2.0%

Table 4
Sewer Projections
FY13-18

Sewer Expenditures	FY13 Budget / Recap	FY13 Projected	FY14 Budget	FY15 Projected	FY16 Projected	FY17 Projected	FY18 Projected
Public Works	2,874,220	2,874,220	3,048,795	3,170,747	3,297,577	3,429,480	3,566,659
Capital	750,000	750,000	1,000,000	1,500,000	2,000,000	2,000,000	2,000,000
Existing Debt	14,138,181	13,084,350	14,830,590	13,586,346	11,197,282	9,935,783	9,392,343
New Debt	-	-	-	2,670,575	5,869,625	8,992,038	12,401,738
Finance	225,000	225,000	225,000	225,000	225,000	225,000	225,000
Community Development	44,500	44,500	44,500	44,500	44,500	44,500	44,500
MWRA	21,006,052	20,768,232	21,346,811	21,709,707	23,120,838	24,854,901	24,854,901
Total	39,037,953	37,746,302	40,495,696	42,906,875	45,754,822	49,481,702	52,485,141
1) The FY14 MWRA assessment is based on the preliminary estimate received from the MWRA and reflects a 2.8% increase from the revised FY13 assessment. FY15-18 assessments are based on annual rate increases of 1.7%, 6.5%, 7.5% and 0.0%, respectively.							
2) Public Works allocation increases by 6.1% in FY14 over the FY13 Budget with increases of 4% estimated in FY15-18.							
3) Capital is funded at \$1,000,000 in FY14, \$1,500,000 in FY15, and \$2,000,000 in FY16-18.							
4) Debt Service increases according to Debt Service schedule.							
5) All others remain constant.							
Financing Plan							
Sewer Service Charge	38,418,922	38,200,000	39,822,225	42,244,699	45,160,648	48,887,461	51,890,834
Non-Metered Sewer Revenues	525,000	850,000	550,000	550,000	550,000	550,000	550,000
MWPAT Subsidy (existing)	94,031	94,031	123,471	112,176	44,174	44,241	44,307
Total	39,037,953	39,144,031	40,495,696	42,906,875	45,754,822	49,481,702	52,485,141
Sewer Service Charge Increase	N/A	N/A	4.2%	6.1%	6.9%	8.3%	6.1%

Table 5
Combined Water and Sewer Projections
FY 13-18

	FY13 Budget / Recap	FY13 Projected	FY14 Budget	FY15 Projected	FY16 Projected	FY17 Projected	FY18 Projected
Metered Water Revenue	17,249,655	17,300,000	17,294,275	17,686,208	17,885,141	18,226,664	18,586,687
Metered Sewer Revenue	38,418,922	38,200,000	39,822,225	42,244,699	45,160,648	48,887,461	51,890,834
Total	55,668,577	55,500,000	57,116,500	59,930,907	63,045,789	67,114,125	70,477,522
% Increase	-	-	2.9%	4.9%	5.2%	6.5%	5.0%

Table 6
Water Fund Balances
FY08-13

	As of 6/30/08 (Actual)	As of 6/30/09 (Actual)	As of 6/30/10 (Actual)	As of 6/30/11 (Actual)	As of 6/30/12 (Actual)	As of 6/30/13 (Projected)
Water Fund Balance	7,536,978	6,381,652	6,312,443	6,988,537	8,410,762	8,524,682